



State of Washington
Department of Revenue

Excise Tax Advisory

Excise Tax Advisories (ETA) are interpretive statements issued by the Department of Revenue under authority of RCW 34.05.230. ETAs explain the Department's policy regarding how tax law applies to a specific issue or specific set of facts. They are advisory for taxpayers; however, the Department is bound by these advisories until superseded by Court action, Legislative action, rule adoption, or an amendment to or cancellation of the ETA.

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ALTERNATIVE CREDIT COMPUTATION FORMULA SEASONAL EMPLOYMENT MANUFACTURERS

Issued August 22, 1986

The Department of Revenue has taken administrative notice that certain identifiable segments of the manufacturing industry, statewide, engage in regular and recurrent employment of persons on a seasonal basis only. Accordingly, such manufacturers would not appear to qualify for business tax credits under the program established by Chapter 116, Laws of 1986. This would be because the term "qualified employment position" upon which the tax credits are computed means "permanent full time employee." It is the hiring of such permanent full time employees in a number which equals or exceeds 15% of the average of such employment during the preceding year which qualifies the employer for credits.

The Department also takes administrative notice that it is not within the spirit and intent of the tax credits program that a manufacturer, who otherwise qualifies for credits in all respects under the law, should be ineligible for such credits because of the strictly seasonal nature of its manufacturing operations and consequent employment practices.

Thus, for manufacturing businesses which regularly operate on a seasonal basis only, and which hire more than 50% of their employees on a seasonal basis (that is, for less than a full 12 month continuous employment period), the term "qualified employment position" will mean a permanent full-time employee or its equivalent in FTE work hours.

In all other respects the credit qualifying Provisions of WAC 458-20-240 must be satisfied in full. However, with respect to section (8)(c) of the rule, seasonal manufacturing operations may compute their employment averages for meeting the 15% employment increase threshold in the following manner.

ETBS have been made Excise Tax Advisories, and have retained their old number. Advisories with a 2 (plus three digits) are new advisories, ETBs that have been revised and readopted after review under the Department's regulatory improvement program, or advisories that have been revised and/or readopted.

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The average annualized employment hours for all employees during the year for which tax credits are sought, and application is made, must be at least fifteen percent greater than the average annualized employee hours worked during the preceding year.

1 annualized FTE = 1,820 hours (35 hours per week x 52 weeks).

Thus, the equation to determine the anticipated employment level is: (number of seasonal employees x number of weeks x 35 hours) + (number of full-time employees x 1,820 hours) = _____. The result must be equal to or greater than 1.5 times the total number of hours worked by all employees in the preceding year.

Example: Applicant is a shake mill, which employed four full-time employees year round, and ten part-time (26 weeks, seasonal) employees during base year 1986. During credit computation year 1987 the applicant anticipates hiring five additional seasonal employees and operating the mill on a four weeks longer term basis during this year. Its average base year annualized employment hours would be 7,280 hours (4 full-time employees) plus 9,100 hours (10 seasonal employees for 26 weeks) for a total of 16,380 hours. Thus, in order to meet the 15% threshold test the applicant must increase its FTE hours to 8,837 (1.15 x 16,380). Its anticipated average annualized employment hours for 1987 would be 7,280 hours (full-time employees) plus 15,855 hours (15 seasonal employees for 30 weeks) for a total of 23,135 hours. The increased employment in 1987 is clearly greater than 15%.

Once the 15% employment increase is satisfied, this applicant would be entitled to \$1,000 in tax credit for each 1,820 hours in excess of 16,380, which are actually worked during the tax computation year. In this case, if the anticipated hiring were actually achieved, the applicant would receive credit for 3 new employees, that is, \$3,000. The remaining fractional part of 1 FTE would not qualify for any credit.

In order to use this alternative credit computation formula the applicant must satisfy the Department that it is a seasonal employment manufacturer by submitting past-period employment records, if available, showing at least 50% seasonal (less than 12 consecutive months) employment during previous years.

Seasonal employers who use this alternative computation method and who otherwise qualify for the tax credits program may begin using the certified tax credits when their actual total hours of employment during the credit year exceed the base years hours of employment. One thousand dollars of tax credit may be used for every unit of 1,820 hours by which the credit year hours worked exceeds the base year hours worked.

Again, this alternative computation method is exclusively available for seasonal employers only. Under WAC 458-20-240 other manufacturers who are not seasonal employers may not include part-time employees in their computations to meet the 15% employment increase threshold test or to determine the amount of tax credit entitlements.